SAUDI FRANSI FOR FINANCE LEASING
(A Closed Joint Stock Company)
Financial Statements
For the year ended 31 December 2020
together with the
Independent auditor's report

KPMG Al Fozan & Partners
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Licence No. 46/11/323 issued 11/3/1992

Independent auditor's report

To the shareholder of Saudi Fransi For Finance Leasing

Opinion

We have audited the financial statements of Saudi Fransi For Finance Leasing ("the Company"), which comprise the statement of financial position as at 31 December 2020, the statements of income, comprehensive income, changes in shareholder's equity and cash flows for the year then ended, and notes to the financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing ("ISA") that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial Statements* section of our report. We are independent of the Company in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the SOCPA, the Regulations for Companies, and the Company's By-laws and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, the Board of Directors, are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA that are endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

KPMG

Independent auditor's report

To the shareholder of Saudi Fransi For Finance Leasing (continued)

Auditor's responsibilities for the audit of the financial statements (continued)

As part of an audit in accordance with ISA that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit of the Company.

For KPMG Al Fozan & Partners
Certified Public Accountants

Dr. Abdullah Hamad Al Fozan
License no: 348

20 Rajab 1442H
Corresponding to: 4 March 2021

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Certified Public Accountants
KPMG Al Fozan & Partners

SAUDI FRANSI FOR FINANCE LEASING
(A Closed Joint Stock Company)
STATEMENT OF FINANCIAL POSITION
As at 31 December 2020
(SAR '000)

	Notes	31 December 2020	31 December 2019
ASSETS			
Cash and cash equivalents	*4*	**7,554**	19,831
Net investment in finance leases	*5*	**2,507,492**	2,426,665
Advances, prepayments and other receivables	*6*	**86,982**	79,936
Investment at FVOCI	*7*	**893**	893
Positive fair value of derivatives	*8*	**-**	1,918
Intangible assets	*9*	**248**	211
Property and equipment and right of use assets	*10*	**2,912**	580
Deferred tax asset		**-**	2,909
Total assets		**2,606,081**	2,532,943
SHAREHOLDERS' EQUITY AND LIABILITIES			
Liabilities			
Long-term loan	*12*	**1,529,245**	1,627,087
SAMA deposit	*27*	**10,119**	--
Accounts payable	*13*	**80,627**	45,632
Advance from customers		**75,126**	65,101
Due to related parties	*11.b*	**30,951**	5,842
Negative fair value of derivatives	*8*	**42,347**	21,742
Accrued expenses and other liabilities	*14*	**18,693**	11,657
Employees' end of service benefits	*15*	**6,882**	5,619
Provision for zakat and income tax	*16*	**23,573**	11,403
Total liabilities		**1,817,563**	1,794,083
Shareholders' equity			
Share capital	*17*	**500,000**	500,000
Statutory reserve	*18*	**37,461**	30,242
Other reserve	*8*	**(41,842)**	(19,308)
Retained earnings		**292,899**	227,926
Total shareholders' equity		**788,518**	738,860
Total shareholders' equity and liabilities		**2,606,081**	2,532,943

Mashhor Al Masudi
Chief Executive Officer

Ahamed Thabit Rasheed
Chief Financial Officer

The accompanying notes (1) through (29) form an integral part of these financial statements.

SAUDI FRANSI FOR FINANCE LEASING
(A Closed Joint Stock Company)
STATEMENT OF INCOME
For the year ended 31 December 2020
(SAR '000)

	Notes	2020	2019
Income from operations			
Lease finance income		**130,884**	139,685
Fees income	*19*	**207,366**	190,138
		338,250	329,823
Operating expenses			
Fees expenses	*19*	**(142,263)**	(144,370)
Salaries and employee related expenses		**(36,670)**	(35,138)
Rent and other expenses		**(195)**	(397)
Depreciation	*10*	**(553)**	(143)
Amortization	*9*	**(254)**	(172)
General and administration expenses	*20*	**(8,306)**	(6,276)
Financial charges		**(49,101)**	(56,717)
Reversal / (allowance) for expected credit losses, net	*5,6*	**268**	(4,762)
		(237,074)	(247,975)
Operating income		**101,176**	81,848
Other income		**4,372**	5,382
Net income for the year before zakat and income tax		**105,548**	87,230
Zakat and income tax	*16*	(33,356)	(7,252)
Net income for the year		72,192	79,978

Mashhor Al Masudi
Chief Executive Officer

Ahamed Thabit Rasheed
Chief Financial Officer

The accompanying notes (1) through (29) form an integral part of these financial statements.

SAUDI FRANSI FOR FINANCE LEASING
(A Closed Joint Stock Company)
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2020
(SAR '000)

	Notes	**2020**	2019
Net income for the year		**72,192**	79,978
Other comprehensive income/(loss):			
Items that may be reclassified to statement of income in subsequent years:			
Cash flow hedges – net change in fair value	*8*	**(22,523)**	(19,551)
Items that may not be reclassified to statement of income in subsequent years:			
Actuarial (loss) / gain on defined benefit plans	*15*	**(11)**	335
Total comprehensive income for the year		**49,658**	60,762

Mashhor Al Masudi
Chief Executive Officer

Ahamed Thabit Rasheed
Chief Financial Officer

The accompanying notes (1) through (29) form an integral part of these financial statements.

SAUDI FRANSI FOR FINANCE LEASING
(A Closed Joint Stock Company)
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the year ended 31 December 2020
(SAR '000)

For the year ended 31 December 2020	**Share Capital**	**Statutory reserve**	**Other reserve**	**Retained earnings**	**Total**
Balance as at 1 January 2020	**500,000**	**30,242**	**(19,308)**	**227,926**	**738,860**
Net income for the year	--	--	--	72,192	72,192
Transfer to statutory reserve *(note 18)*	--	7,219	--	(7,219)	--
Other comprehensive income	--	--	(22,534)	--	(22,534)
Balance as at 31 December 2020	**500,000**	**37,461**	**(41,842)**	**292,899**	**788,518**

For the year ended 31 December 2019	Share Capital	Statutory reserve	Other reserve	Retained earnings	Total
Balance as at 1 January 2019	500,000	22,244	(92)	155,946	678,099
Net income for the year	--	--	--	79,978	79,978
Transfer to statutory reserve *(note 18)*	--	7,998	--	(7,998)	--
Other comprehensive income	--	--	(19,216)	--	(19,216)
Balance as at 31 December 2019	500,000	30,242	(19,308)	227,926	738,860

Mashhor Al Masudi
Chief Executive Officer

Ahamed Thabit Rasheed
Chief Financial Officer

The accompanying notes (1) through (29) form an integral part of these financial statements.

SAUDI FRANSI FOR FINANCE LEASING
(A Closed Joint Stock Company)
STATEMENT OF CASH FLOWS
For the year ended 31 December 2020
(SAR '000)

	Notes	2020	2019
Cash flows from operating activities			
Net income for the year before zakat and income tax		**105,548**	87,230
Adjustments to reconcile net income to net cash generated from / (used in) operating activities:			
Depreciation	10	**553**	143
Amortization	9	**254**	172
(Reversal) / charge for expected credit losses, net	5,6	**(268)**	4,762
Employees' end of service benefits		**1,500**	1,388
Financial charges		**49,101**	56,717
Operating income before changes in operating assets and liabilities		**156,688**	150,412
Net (increase) / decrease in operating assets			
Net investment in finance leases		**(79,058)**	(113,823)
Advances, prepayments and other receivables		**(8,546)**	(24,721)
Due from a related party		--	26
Net increase / (decrease) in operating liabilities			
Accounts payable		**34,995**	18,150
Due to related parties		**25,109**	(6,587)
Advance from customers		**10,025**	13,808
Accrued expenses and other liabilities		**4,835**	1,956
Net cash from operations		**144,048**	39,221
Zakat and income tax paid	16	**(18,277)**	(12,003)
Employees' end of service benefits paid, net	15	**(247)**	80
Net cash generated from operating activities		125,524	27,298
Cash flows from investing activities			
Purchase of intangibles	9	**(291)**	(58)
Purchase of property and equipment	10	**(499)**	(324)
Net cash used in investing activities		(790)	(382)
Cash flows from financing activities			
Draw down of long-term loan	12	**460,062**	400,000
Payments of long-term loan	12	**(555,062)**	(475,000)
SAMA deposit received		**10,119**	--
Financial charges paid	12	**(52,130)**	(58,498)
Net cash used in financing activities		(137,011)	(133,498)
Net decrease in cash and cash equivalents		**(12,277)**	(106,582)
Cash and cash equivalents at the beginning of the year		**19,831**	126,413
Cash and cash equivalents at the end of the year	4	7,554	19,831
Non-cash supplemental information:			
Right-of-use-assets		**1,993**	--
Lease liabilities		**1,796**	--

The accompanying notes (1) through (29) form an integral part of these financial statements.

1. THE COMPANY AND NATURE OF OPERATIONS

Saudi Fransi for Finance Leasing ("the Company") is a Closed Joint Stock Company ("CJSC") established under the Regulations for Companies in the Kingdom of Saudi Arabia. The Company operates under Commercial Registration No. 1010320273 dated 24 Dhul Hijjah 1432H (corresponding to 21 November 2011).

As per the Saudi Central Bank ("SAMA") directive, the Company obtained a license no. 201511/ 38/أش to practice finance activities.

The Company's head office is located in Riyadh at the following address:

Saudi Fransi for Finance Leasing
Prince Abdulaziz Ibn Musaid Ibn Jalawi Road
P.O. Box 56006,
Riyadh 11554
Kingdom of Saudi Arabia

The objective of the Company is to provide lease financing for assets.

2. BASIS OF PREPARATION

a) *Statement of compliance*

The financial statements of the Company are prepared:

(a) in accordance with the International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants ("SOCPA"); and

(b) in compliance with the provisions of the Regulations for Companies in the Kingdom of Saudi Arabia and By-laws of the Company.

b) *Basis of measurement*

These financial statements have been prepared on a going concern basis under the historical cost convention except for the measurement of commission rate swaps and financial assets held at fair value through other comprehensive income – equity instrument, which are carried at fair value. Further, employees' end of service benefits are measured at present value of future obligations using the Projected Unit Credit Method.

c) *Functional and presentation currency*

Items included in these financial statements are measured using the currency of the primary economic environment in which the Company operates. These financial statements are presented in Saudi Arabian Riyals ("SAR") which is the Company's functional and presentation currency. All financial information presented has been rounded-off to the SR in thousand unless otherwise stated.

2. BASIS OF PREPARATION (CONTINUED)

d) Critical Accounting Judgements, Estimates And Assumptions

The preparation of the financial statements in conformity with IFRS as endorsed in the KSA and other standards and pronouncements issued by SOCPA, requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Such judgements, estimates, and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advices and expectations of future events that are believed to be reasonable under the circumstances.

The COVID-19 pandemic continues to disrupt global markets as many geographies are experiencing a "second wave" of infections despite having previously controlled the outbreak through aggressive precautionary measures such as imposing restrictions on travel, lockdowns and strict social distancing rules. The Government of the Kingdom of Saudi Arabia ("the Government") however has managed to successfully control the outbreak to date, owing primarily to the unprecedented yet effective measures taken by the Government, following which the Government has ended the lockdowns and has taken phased measures towards normalization.

Recently, number of COVID-19 vaccines have been developed and approved for mass distribution by various governments around the world. The Government has also approved a vaccine which is currently available for healthcare workers and certain other categories of people and it will be available to the masses in general during 2021. The Company continues to be cognisant of both the micro and macroeconomic challenges that COVID-19 has posed, the teething effects of which may be felt for some time, and is closely monitoring its exposures at a granular level. The Company has made various accounting estimates in these financial statements based on forecasts of economic conditions which reflect expectations and assumptions as at 31 December 2020 about future events that the Company believe are reasonable in the circumstances. There is a considerable degree of judgement involved in preparing these estimates. The underlying assumptions are also subject to uncertainties which are often outside the control of the Company. Accordingly, actual economic conditions are likely to be different from those forecast since anticipated events frequently do not occur as expected, and the effect of those differences may significantly impact accounting estimates included in these financial statements.

The significant accounting estimates impacted by these forecasts and associated uncertainties are predominantly related to expected credit losses on financial assets. The impact of the COVID-19 pandemic on each of these estimates is discussed further in note 22 and note 27 of these financial statements.

Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and in future periods if the revision affects both current and future periods. Areas where management has used estimates, assumptions or exercised judgements are as follows:

i. Impairment of financial assets

The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

2. BASIS OF PREPARATION (CONTINUED)

d) Critical Accounting Judgements, Estimates And Assumptions (continued)

i. Impairment of financial assets (continued)

The Company's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Company's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Lifetime ECL basis and the qualitative assessment;

- Development of ECL models, including the various formulas and the choice of inputs;

- Determination of associations between macroeconomic scenario and, economic inputs, such as oil prices, and the effect on PDs, exposure at default (EAD) and loss given defaults (LGD); and

- Selection of forward-looking macroeconomic variables to derive the economic inputs into the ECL models.

ii. Fair value measurement - refer note 3 and 21

iii. End of service benefits - refer note 3 and 15

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are set out below.

a) Change in accounting policies

The accounting policies used in the preparation of these financial statements are consistent with those used in the preparation of the annual audited financial statements for the year ended 31 December 2019, except for the application of government grant accounting policy.

New standards, interpretations and amendments adopted by the Company

Below amendments to accounting standards and interpretations became applicable for annual reporting periods commencing on or after January 1, 2020. The management has assessed that the amendments have no significant impact on the Company's financial statements.

i. Amendments to IFRS 3: Definition of a Business
ii. Amendments to IAS 1 and IAS 8: Definition of Material
iii. Amendments to References to the Conceptual Framework in IFRS Standards.
iv. Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform – Phase I

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Change in accounting policies (continued)

Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform
A fundamental review and reform of major interest rate benchmarks is being undertaken globally. The International Accounting Standards Board ("IASB") is engaged in a two-phase process of amending its guidance to assist in a smoother transition away from IBOR.

- **Phase 1**

The first phase of amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures focused on hedge accounting issues. The final amendments, issued in September 2019, amended specific hedge accounting requirements to provide relief from the potential effects of the uncertainty caused by IBOR reform. The amendments are effective from January 01, 2020 and are mandatory for all hedge relationships directly affected by IBOR reform.

- **Phase 2**

The second phase relates to the replacement of benchmark rates (IBOR) with alternative risk-free rates (RFR). The Phase 2 amendments are effective for annual periods beginning on or after January 01, 2021 and early application is permitted. Now that the Phase 2 Amendments have been finalised, the Company will complete its assessment of the accounting implications of the scenarios it expects to encounter as the transition from IBORs to RFRs in order to accelerate its programs to implement the new requirements. The Phase 2 Amendments introduce new areas of judgement, the Company needs to ensure it has appropriate accounting policies and governance in place. For the additional disclosures, the Company will have to assess and implement required updates in the financial reporting systems and processes to gather and present the information required.

The Company's derivative positions are managed by the Parent, which is running a project on the Group's overall transition activities and continues to engage with various stakeholders to support an orderly transition. The project is significant in terms of scale and complexity and will impact products, internal systems and processes.

b) Accounting standards issued but not yet effective

The accounting standards, amendments and revisions which have been published and are mandatory for compliance for the Company's accounting year beginning on or after January 1, 2021 are listed below. The Company has opted not to early adopt these pronouncements and these do not have a significant impact on the financial statements.

i. COVID-19 – Related Rent Concessions (Amendments to IFRS 16)
ii. Amendments to IAS 1 – "Classification of Liabilities as Current or Non-current", applicable for the period beginning on or after January,1, 2022
iii. Onerous contracts – Cost of Fulfilling a contract (Amendments to IAS 37)
iv. Interest Rate Benchmark Reform – Phase 2 (amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)
v. Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)
vi. Reference to Conceptual Framework (Amendments to IFRS 3)

c) Cash and cash equivalents
Cash and cash equivalents consist of bank balances and cash in hand.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Net investment in finance leases

Net investment in finance lease represents leasing contracts which are receivable from customers on account of finance leases. Leases in which the Company transfers substantially all the risks and rewards incidental to the ownership of an asset to the lessees at the end of the contract are classified as finance leases. Net investment in finance leases are recorded at the inception of the lease at the lower of the fair value of the leased asset or the present value of the minimum lease payments.

All leased vehicles are under the Company's name, and the contract signed with customer represents lease contract with irrevocable promise to transfer the ownership, where the legal title of the asset will be passed to the lessee once all lease instalments are settled. Based on the criteria as laid out in IFRS 16, these contracts meet the definition of a finance lease, even though the legal ownership of these underlying properties is not transferred as of the reporting date.

Gross investment in finance leases include the total of future lease payments on finance leases (lease receivables), plus estimated residual amounts receivable. The difference between the lease receivables and the cost of the leased asset is recorded as unearned lease income and for presentation purposes, is deducted from the gross investment in finance leases.

e) Impairment

The Company recognizes loss allowances for ECL on investment in finance lease.

No impairment loss is recognized on equity investments.

The Company measures loss allowances at an amount equal to lifetime ECL, except for the financial instruments on which credit risk has not increased significantly since their initial recognition, these loss allowances for lease receivables are always measured at an amount equal to lifetime ECL.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset; and
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition .This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective yield of the existing financial asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Impairment (continued)

Credit-impaired financial assets
At each reporting date, the Company assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or lease by the Company on terms that the Company would not consider otherwise; or
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

A lease that has been renegotiated due to deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

Presentation of allowance for ECL in the statement of financial position
Impairment allowances for ECL of financial assets measured at amortised cost are presented in the statement of financial position as a deduction from the gross carrying amount of the assets.

Write-off
Investment in finance leases are written off (either partially or in full) when there is no realistic prospect of recovery. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to impairment charge for credit losses.

f) Financial instruments
All financial assets and financial liabilities are initially recognized on the trade date i.e. the date which the Company becomes party to the contractual provisions of the instrument. Financial assets comprises of cash and cash equivalents, investments, net investment in finance lease, derivative and other receivables. Financial liabilities comprises of long-term loan, accounts payable, advance from customers, due to related parties, negative fair value of derivatives and accrued expenses and other liabilities.

Classification of financial assets
On initial recognition, a financial asset is classified as measured at: amortized cost, FVOCI or fair value through profit or loss (FVTPL).

Financial asset at amortised cost
A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial instruments (continued)

Financial asset at FVOCI
Debt instrument: A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Profit and foreign exchange gains and losses are recognised in profit or loss.

Equity instrument: On initial recognition, for an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an instrument-by- instrument basis.

Financial asset at FVTPL
All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Company may irrevocably designate a financial asset, that otherwise meets the requirements to be measured at amortized cost or at FVOCI, as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets are not reclassified subsequent to their initial recognition, except in the period when the Company changes its business model for managing financial assets.

Business model assessment
The Company assess the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:
- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual profit revenue, maintaining a particular profit rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
  the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realized.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial instruments (continued)

Financial assets that are held for trading and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessments whether contractual cash flows are solely payments of principal and profit:
For the purposes of this assessment, 'principal' is the fair value of the financial asset on initial recognition. 'Profit' is the consideration for the time value of money, the credit and other basic lending risk associated with the principal amount outstanding during a particular period and other basic lending costs (e.g. liquidity risk and administrative costs), along with profit margin.

In assessing whether the contractual cash flows are solely payments of principal and profit, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Company considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money- e.g. periodical reset of profit rates.

Classification of financial liabilities
The Company classifies its financial liabilities, as measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium to issue the funds, and other cost that are integral part of the effective profit rate.

Derecognition

Financial assets
The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of
(i) the consideration received (including any new asset obtained less any new liability assumed); and
(ii) any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss.

In transactions in which the Company neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Company continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial liabilities
The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expire.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial instruments (continued)

Modifications of financial assets and financial liabilities

Financial assets
If the terms of a financial asset are modified, the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognized at fair value.

If the cash flows of the modified asset carried at amortized cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Company recalculates the gross carrying amount of the financial asset and recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as profit.

Financial liabilities
The Company derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognized in profit or loss.

Offsetting of financial instruments
Financial assets and liabilities are offset and are reported net in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and when the Company intends to settle on a net basis, or to realize the asset and settle the liability simultaneously. Income and expenses are not offset in the statement of profit or loss unless required or permitted by an accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Company.

Derivative financial instruments and hedge accounting
The Company designates certain derivatives (i.e. commission rate swaps) as hedging instruments in qualifying hedging relationships to manage exposures to commission rate. In order to manage particular risk, the Company applies hedge accounting for transactions that meet specific criteria.

Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from the changes in the fair value of derivatives are taken directly to the statement of income, except for the effective portion of cash flow hedges, which is recognised in the statement of comprehensive income.

For the purpose of cash flow hedge which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability, or to a highly probable forecasted transaction that will affect the reported net gain or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial instruments (continued)

Modifications of financial assets and financial liabilities (continued)

Derivative financial instruments and hedge accounting (continued)
In order to qualify for hedge accounting, the hedge should be expected to be highly effective i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item, and should be reliably measurable. At inception of the hedge, the risk management objective and strategy is documented including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Company will assess the effectiveness of the hedging relationship. At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was effective (retrospective effectiveness) for the designated period in order to qualify for hedge accounting. A formal assessment is undertaken by comparing the hedging instrument's effectiveness in offsetting the changes in fair value or cash flows attributable to the hedged risk in the hedged item, both at inception and at each quarter end on an ongoing basis. Prospective testing is performed mainly through matching the critical terms of both hedge item and instrument. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated were offset by the hedging instrument in a range of 80% to 125% and were expected to achieve such offset in future periods. Hedge ineffectiveness, if any, is recognized in the statement of income.

Hedge accounting is discontinued when the hedging instrument is expired or sold, terminated or exercised, or no longer qualifies for hedge accounting, or the forecast transaction is no longer expected to occur or the Company revokes the designation then hedge accounting is discontinued prospectively.

At that point of time, any cumulative gain or loss on the cash flow hedging instrument that was recognised in shareholders' equity is transferred to the statement of profit or loss for the period.

g) Income and expenses recognition

Income and expenses
Finance lease income and borrowing cost are recognized in profit or loss using the effective profit method. The 'effective profit rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to or the amortized cost of the financial instrument.

When calculating the effective profit rate for financial instruments other than credit-impaired assets, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective profit rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective profit rate includes transaction costs and fees and points paid or received that are an integral part of the effective profit rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Insurance income
Insurance income is recognised in the statement of income over the lease term.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) *Income and expenses recognition (continued)*

Measurement of amortized cost and income

The 'amortized cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective profit method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The 'gross carrying amount of a financial asset' is the amortized cost of a financial asset before adjusting for any expected credit loss allowance.

In calculating profit, the effective profit rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, profit is calculated by applying the effective profit rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of profit reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, profit is calculated by applying the credit-adjusted effective profit rate to the amortized cost of the asset. The calculation of profit does not revert to a gross basis, even if the credit risk of the asset improves.

h) *Property and equipment*

Property and equipment are stated at cost less accumulated depreciation and impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. Cost incurred to replace a component of an item of property, plant and equipment is capitalised and the asset so replaced is retired from use. All other repairs and maintenance expenditures are charged to the statement of profit or loss during the period in which they are incurred.

Depreciation is charged to statement of profit or loss using the straight-line method over the estimated useful lives of the assets as follows:

	Years
Leasehold improvements	10
Furniture and fixtures	10
Equipment	7
Computer hardware	4
Motor vehicles	4

i) *Intangible assets*

Intangible assets that are acquired by the Company have finite useful lives and are measured at cost less accumulated amortisation and impairment, if any.

These are amortised on a straight-line basis in statement of income over their estimated useful lives from the date that they are available for use.

The intangible assets comprise of computer softwares and their estimated useful life is 3 years.

j) *Provisions*

Provisions are recognized when the Company has a legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each statement of financial position date and are adjusted to reflect the current best estimate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k) Accrued expenses and other current liabilities

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

l) Employees' terminal benefits

The Company operates a defined benefit plan for employees in accordance with Saudi Labor Law as defined by the conditions stated in the laws of the Kingdom of Saudi Arabia. The cost of providing the benefits under the defined benefit plan is determined using the projected unit credit method.

Remeasurements for actuarial gains and losses are recognised immediately in the statement of financial position with a corresponding credit to retained earnings through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service cost are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment, and
- The date the Company recognises related restructuring costs

Interest cost is calculated by applying the discount rate to the net defined benefit liability. The Company recognises the following changes in the net defined benefit obligation in the statement of income:

- Service costs comprising current service costs, past service costs, gains and losses on curtailments and non-routine settlements (under general and administrative expenses)
- Net special commission expense or income (under general and administrative expenses)

m) Zakat and income tax

The Company's shareholders are subject to zakat and non-Saudi shareholders are subject to income tax in accordance with the regulations of the General Authority of Zakat and Tax ("GAZT") as applicable in the Kingdom of Saudi Arabia.

n) Long-term loan

Long-term loan includes special commission bearing borrowing which is recognized initially at fair value. Subsequent to the initial recognition, special commission bearing borrowings are stated at amortized cost with any difference between cost (including transaction cost) and redemption value being recognized in the statement of profit or loss over the period of the borrowing on an effective special commission rate basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o) Fair value measurement

The Company measures certain financial instruments, such as, derivatives and equity instruments at fair value at each statement of financial position date. Also, fair values of financial instruments measured at amortized cost are disclosed in note 21.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Company. The fair value of an asset or a liability is measured using assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. The fair value of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization at the end of each reporting period.

p) Foreign currencies

Transactions in foreign currencies are recorded in Saudi Riyals at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date. All differences are taken to the statement of profit or loss. The gains or losses on foreign currency transactions are included in the statement of profit or loss during the year.

q) *Segment reporting*

A segment is a distinguishable component of the Company that is engaged either in providing products or services (a business segment) or in providing products or services within a particular economic environment, which is subject to risks and rewards that are different from those of other segments.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

r) *Value Added Tax ("VAT")*

The Company collects VAT from its customers for qualifying services provided and makes VAT payments to its vendors for qualifying payments. On a monthly basis, net VAT remittances are made to the GAZT representing VAT collected from its customers, net of any recoverable VAT on payments. Unrecoverable VAT is borne by the Company and is either expensed or in the case of property, equipment, and intangibles payments, is capitalized and either depreciated or amortized as part of the capital cost.

s) *Impairment of non-financial assets*

An assessment is made at each reporting date to determine whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's, or cash-generating units (CGU), fair value less cost to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

t) Government grant

The Company recognizes a government grant related to income, if there is a reasonable assurance that it will be received and the Company will comply with the conditions associated with the grant. The benefit of a government deposit at a below-market rate of interest is treated as a government grant related to income. The below-market rate deposit is recognised and measured in accordance with IFRS 9. The benefit of the below-market rate of interest is measured as the difference between the initial carrying value of the deposit determined in accordance with IFRS 9 and the proceeds received. The benefit is accounted for in accordance with IAS 20. Government grant is recognised in statement of income on a systematic basis over the periods in which the Company recognises as expenses the related costs for which the grant is intended to compensate.

u) Accounting for leases

On initial recognition at inception of the contract, the Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is identified if most of the benefits are flowing to the Company and the Company can direct the usage of such assets.

Right of use assets

The right of use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain re-measurement of the lease liability.

Generally, right of use assets would be equal to the lease liability. However, if there are additional costs such as site preparation, non-refundable deposits, application money, other expenses related to transaction etc. need to be added to the right of use assets' value.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment.

(SAR '000)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

w) Accounting for leases (continued)

Lease liability
The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or if that rate cannot be readily determined, the Company's incremental borrowing rate.

After the commencement date, Company measures the lease liability by:
1. Increasing the carrying amount to reflect interest on the lease liability;
2. Reducing the carrying amount to reflect the lease payments made; and
3. Re-measuring the carrying amount to reflect any re-assessment or lease modification.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

4. CASH AND CASH EQUIVALENTS

	31 December 2020	31 December 2019
Cash in hand	**3**	3
Cash at bank	**7,551**	19,828
	7,554	19,831

5. NET INVESTMENT IN FINANCE LEASES

		31 December 2020		
		Not later than one year	**Later than one year and less than five years**	**Total**
Lease contract receivables		**1,176,544**	**2,004,308**	**3,180,852**
Unearned finance income		**(215,061)**	**(366,424)**	**(581,485)**
Net receivable from finance lease		**961,483**	**1,637,884**	**2,599,367**
Provision for expected credit losses	*5.1*	**(33,979)**	**(57,896)**	**(91,875)**
Net investment in finance leases		**927,504**	**1,579,988**	**2,507,492**

These leased assets carry profit rates ranging from 3% to 7% per annum (2019: 3% to 7%) and lease rentals are determined on the basis of implicit rate of profit based on the cash flows of the lease. The Company holds the title of the leased assets as a collateral against the finance leases.

(SAR '000)

5. NET INVESTMENT IN FINANCE LEASES (CONTINUED)

		31 December 2019		
		Not later than one year	Later than one year and less than five years	Total
Lease contract receivables		1,130,795	2,052,035	3,182,830
Unearned finance income		(231,380)	(419,749)	(651,129,)
		899,415	1,632,286	2,531,701
Provision for expected credit losses	*5.1*	(37,314)	(67,722)	(105,036)
Net investment in finance leases		862,101	1,564,564	2,426,665

5.1 The movement in the allowance for expected credit losses is as follows:

	2020	2019
Balance as at 1 January	**105,036**	101,006
Reversal / charge for the year	**(1,768)**	4,762
Write off	**(11,393)**	(732)
Balance as at 31 December	**91,875**	105,036

6. ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES

	31 December 2020	31 December 2019
Prepaid insurance	**69,740**	63,645
VAT receivable, net	**8,879**	9,091
Dealers receivable	**1,955**	5,445
Prepaid rent	**-**	195
Other receivables *(note 6.1)*	**6,408**	1,560
	86,982	79,936

6.1 This includes amount pertaining to receivables from customers against fee receivables from customer care services equal to SR 1.83 million (2019: SR 0.77 million). During the year the Company has charged expected credit loss amounting to SR 1.5 million (2019: SR nil) against these receivables.

7. INVESTMENT AT FVOCI

Pursuant to Article 18/1 of the financial leasing law, Saudi Financial Lease Contract Registry Company ("SFLCRC") was established on 3/2/1439, corresponding to 23 October 2017, under CR No. 1010612415, and SAMA approval no. 381000124076 dated 23/12/1438, corresponding to 14 September 2017.

This Company has been set up by SAMA as a means to further regulate the market and facilitate transfer of leases between suppliers of finance and counterparties. SIJIL has 700,000 shares of SR 10 each. These 700,000 shares have been divided between finance lease companies registered and operating in Saudi Arabia. The Company purchased 89,285 shares at SR 10 each, amounting to SR 892,850.

As at the date of these financial statements, the carrying value of this investment is not materially different to its fair value.

8. DERIVATIVE

SR in 000'	Positive fair value of derivative	Negative fair value of derivative	Notional amount: Within 3 months	3-12 months	1-5 years	Total
2020	**--**	**(42,347)**	**113,542**	**265,625**	**1,145,833**	**1,525,000**
2019	1,918	(21,742)	104,375	290,625	1,175,000	1,570,000

The Company entered into commission rate swaps with its parent, BSF. The positive fair value of commission rate swaps as on 31 December 2020 is nil (2019: SAR 1.92 million) and negative fair value of commission rate swaps is SAR 42.35 million (2019: SAR 21.74 million). The fair value of commission rate swaps is calculated using discounted cash flow model using a risk free discount rate adjusted for appropriate risk margin for counterparty risk including entity's own credit risk.

9. INTANGIBLE ASSETS

	31 December 2020	31 December 2019
Cost	**4,794**	4,736
Additions during the year	**291**	58
	5,085	4,794
Opening amortization balance	**(4,583)**	(4,411)
Amortization charge for the year	**(254)**	(172)
Accumulated amortization at end of the year	**(4,837)**	(4,583)
Net book value	**248**	211

(SAR '000)

10. PROPERTY AND EQUIPMENT AND RIGHT OF USE ASSETS

Movement in the property and equipment during the year is as follows:

For the year ended 31 December 2020	**Lease hold improvements**	**Furniture and fixtures**	**Equipments**	**Motor vehicles**	**Computer hardware**	**Right of use assets ***	**Total**
Cost:							
Balance at beginning of the year	**8**	**99**	**880**	**377**	**534**	--	**1,898**
Additions	**224**	**83**	**192**	**--**	**--**	**2,387**	**2,886**
Deletions	**--**	**--**	**(15)**	**--**	**--**	**--**	**(15)**
Balance at the end of the year	**232**	**182**	**1,057**	**377**	**534**	**2,387**	**4,769**
Accumulated depreciation:							
Balance at beginning of the year	**6**	**35**	**382**	**361**	**534**	--	**1,318**
Charge for the year	**8**	**13**	**130**	**8**	**--**	**394**	**553**
Deletions	**--**	**--**	**(14)**	**--**	**--**	--	**(14)**
Balance at the end of the year	**14**	**48**	**498**	**369**	**534**	**394**	**1,857**
Net book value at 31 December 2020	**218**	**134**	**559**	**8**	**--**	**1,993**	**2,912**

For the year ended 31 December 2019	Lease hold improvements	Furniture and fixtures	Equipments	Motor vehicles	Computer hardware	Right of use assets *	Total
Cost:							
Balance at beginning of the year	8	83	572	377	534	--	1,574
Additions	--	16	308	--	--	--	324
Balance at the end of the year	8	99	880	377	534	--	1,898
Accumulated depreciation:							
Balance at beginning of the year	5	26	280	330	534	--	1,175
Charge for the year	1	9	102	31	--	--	143
Balance at the end of the year	6	35	382	361	534	--	1,318
Net book value at 31 December 2019	3	64	498	16	--	--	580

* Right of use assets pertains to lease of premises of the Company's branches.

(SAR '000)

11. RELATED PARTY TRANSACTIONS

The related parties of the Company comprise of BSF and its affiliated entities and certain key management personnel. The Company transacts with its related parties in the ordinary course of business. The transactions with related parties are undertaken in light of applicable rules and regulations.

The Company in its ordinary course of business transacts with the following related parties. The terms of those billings and charges are on an agreed basis with these related parties:

Name	Relationship
Banque Saudi Fransi (BSF)	Parent
Sofinco Saudi Fransi (SSF)	Affiliate
Allianz Saudi Fransi (ASF)	Affiliate

In addition to the related party transactions and balances disclosed elsewhere in these financial statements, significant transactions and balances arising from transactions with related parties are as follows:

a) Transactions with related parties

Nature of transactions	*Related parties*	**For the year ended 31 December 2020**	For the year ended 31 December 2019
Lease rental collected	SSF	**438**	789
Transfer of lease rentals to related party	BSF	**--**	661
IT maintenance and network related expenses	BSF	**(1,370)**	(1,339)
Financial charges on long-term loan and commission rate swaps including bank charges	BSF	**(49,288)**	(56,717)
Commission on short term deposit	BSF	**--**	121
Salaries and employee related expenses	BSF	**(3,581)**	(3,721)
Finance Lease disbursed	BSF and certain member of the BOD	**2,244**	777
Insurance expense of leased assets	ASF	**(38,404)**	(118,745)
Draw down of long-term loan	BSF	**460,062**	400,000
Payments of long-term loan	BSF	**(555,062)**	(475,000)
Cash received for end of service benefit	BSF	**-**	586
Term deposit	BSF	**-**	(50,000)

Certain expenses paid by BSF on behalf of the Company were not charged by BSF to the Company; these expenses mainly included provision of rent free premises, telephone expenses and electricity expenses.

The above transactions mainly resulted in the following balances:

b) Due to related parties (excluding term loan):

	31 December 2020	31 December 2019
BSF	**8,727**	4,303
Allianz Saudi Fransi	**22,224**	1,539
	30,951	5,842

(SAR '000)

11. RELATED PARTY TRANSACTIONS (continued)

c) Other balances with a related party:

Nature of balances	***Related party***	**31 December 2020**	31 December 2019
Cash and Cash equivalents	Banque Saudi Fransi	**7,554**	19,829
Long-term loan	Banque Saudi Fransi	**1,529,245**	1,627,087

d) The company considers chief executive officer and chief financial officer as key management personnel. The compensation of the key management personnel are listed below:

	2020	2019
Salaries	**1,393**	1,465
End of service benefits	**103**	125
Other allowances	**14**	24
	1,510	1,614

e) As at 31 December 2020, the Company had 7 lease contracts (2019: 11 lease contracts) with Banque Saudi Fransi with an aggregate outstanding principal amounting to SAR 0.21 million (2019: SAR 0.84 million).

12. LONG TERM LOAN

The Company has a shariah compliant loan facility "Al Tawarruq" with a limit of SAR 2,000 million from its parent Banque Saudi Fransi ("BSF").

As at 31 December, the outstanding / utilized amounts from the above facility which are as follows:

	31 December 2020	31 December 2019
Current portion	**383,412**	452,087
Non-current portion	**1,145,833**	1,175,000
	1,529,245	1,627,087

The long-term loans carry special commission rate equal to SIBOR plus bank margins payable on quarterly basis. The management have provided BSF with promissory notes against this facility.

The movement in borrowings for the year ended 31 December was as follows:

	31 December 2020	31 December 2019
Balance at beginning of the year	**1,627,087**	1,703,868
Borrowings made during the year	**460,062**	400,000
Principal repayments during the year	**(555,062)**	(475,000)
Profit accrued during the year	**49,288**	56,717
Profit repayments during the year	**(52,130)**	(58,498)
Balance at end of the year	**1,529,245**	1,627,087

(SAR '000)

13. ACCOUNTS PAYABLE

	31 December 2020	31 December 2019
Third party insurance collected	**8,602**	11,827
Dealers payable	**51,611**	22,950
Commission payable	**4,351**	3,668
Insurance Payable	**12,130**	5,155
Customer verification expense payable	**1,974**	1,133
Government fee payable	**1,926**	867
Others	**33**	32
	80,627	45,632

14. ACCRUED EXPENSES AND OTHER LIABILITIES

	Note	**31 December 2020**	31 December 2019
Salaries and employee related expenses		**13,011**	8,788
Liabilities taken over from Sofinco Saudi Fransi	*14.1*	**2,041**	2,033
Lease Liability		**1,796**	-
Payable to service providers		**1,133**	318
Legal and professional charges		**684**	471
Others		**28**	47
		18,693	11,657

14.1 The details of liabilities taken over from Sofinco Saudi Fransi, a related party on account of portfolio transfer of finance lease contracts to the Company, are as follows:

	31 December 2020	31 December 2019
Legal and professional charges	**1,324**	1,324
Advance from customer	**443**	443
Third party insurance	**184**	176
Others	**90**	90
	2,041	2,033

15. EMPLOYEE BENEFITS

The following tables summarise the components of employee benefits recognised in the statements of financial position, statement of income and statement of comprehensive income.

a) Amount recognised in the statement of financial position as at 31 December:

	31 December 2020	31 December 2019
Present value of defined benefit obligation	**6,882**	5,619

b) Benefit expense (recognised in the statement of income):

	For the year ended 31 December 2020	For the year ended 31 December 2019
Current service cost	**1,313**	1,159
Interest cost	**187**	229
Benefit expense	**1,500**	1,388

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15. EMPLOYEE BENEFITS (CONTINUED)

c) Amount recognized in statement of comprehensive income:

	For the year ended 31 December 2020	For the year ended 31 December 2019
Actuarial loss / (gain) on defined benefit plan	**11**	(335)

d) Movement in the present value of defined benefit obligation:

	For the year ended 31 December 2020	For the year ended 31 December 2019
Present value of defined benefit obligation at beginning of the year	**5,619**	4,486
Charge recognised in the statement of profit or loss:		
Current service cost	**1,313**	1,159
Interest cost	**187**	229
	1,500	1,388
Actuarial loss / (gain) on defined benefit plan recognized in the statement of other comprehensive income	**11**	(335)
Benefits paid	**(247)**	(506)
Transfer from BSF	**--**	586
Present value of defined benefit obligation at end of the year	**6,882**	5,619

e) Principal actuarial assumptions:

	31 December 2020	31 December 2019
Discount rate	**2.45%**	3.05%
Salary increase rate	**2.45%**	3.05%

f) Maturity analysis

The maturity profile of the defined benefit obligation is as follows:

	2020	2019
Weighted average duration of the defined benefit obligation	**11.48**	11.62
Distribution of timing of benefit payments		
Year 1	**397**	327
Year 2	**507**	482
Year 3	**547**	451
Year 4	**690**	529
Year 5	**664**	608
Year 6-10	**4,346**	4,073

g) Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

	31 December 2020		31 December 2019	
	Increase	**Decrease**	Increase	Decrease
Discount rate (0.5% movement)	**(378)**	**414**	(277)	383
Future salary growth (0.5% movement)	**329**	**(305)**	289	(195)

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16. ZAKAT AND TAX

The movement in the provision for zakat and tax for the years ended 31 December is as follows:

	31 December 2020	31 December 2019
Opening zakat and tax	**8,494**	13,245
Charge for the year:		
- Current	**19,263**	10,161
- Prior years	**11,184**	--
- Deferred tax	**2,909**	(2,909)
Charge for the year	**33,356**	7,252
Payment during the year	**(18,277)**	(12,003)
Closing zakat and tax	**23,573**	8,494

The Company had recorded zakat and income tax provision based on the ministerial resolution no. 2215 dated 7/7/1440H (Corresponding to 14/3/2019) issued by the GAZT and based on our interpretation of the requirements. At the time of filing of zakat and income tax return of the Company for the year ended 31 December 2019, the Company, based on guidelines issued by GAZT re-assessed its composition of non-zakatable assets and has accordingly revised upwards its zakat base. This revision resulted in an additional zakat liability which has been reflected in these financial statements.

Status of assessments
The Company has submitted its zakat and income tax returns for the years ended 31 December 2012 to 2019 with the General Authority of Zakat and Income Tax ("GAZT").

Following is the zakat and income tax status of the Company:

2012 to 2015
GAZT issued assessments for the years 2012 to 2015 and claimed additional zakat liability of SR 9,828,110. The differences mainly resulted from the non-deduction of the provision for finance lease losses, provision for end of service benefit, depreciation and due to related parties. The Company has filed an appeal with the General Secretariat of Tax Committees ("GSTC") and is also under discussion with the Alternative Dispute Resolution Committee ("ADRC") against the said assessment; however, the Company on a prudent basis recorded SR 3.7 million as its best estimate of additional zakat liability of the said assessments.

2015 to 2017
During prior year, the Company settled assessments with GAZT for the years pertaining to 2015 to 2017. Current outstanding amount as at 31 December 2020 with respect to this settlement amount is SR 3.1 million (2019: SR 4.1 million). The Company will settle these amounts in equal installments of SR 1 million every year till 1 December 2023.

17. SHARE CAPITAL

The authorised, issued and paid-up share capital of the Company is SAR 500 million (2019: SAR 500 million) divided into 50 million (2019: 50 million) shares of SAR 10 (2019: SAR 10) each and 100% owned by BSF.

18. STATUTORY RESERVE

The Company's Articles of Association and the Regulations for Companies in the Kingdom of Saudi Arabia require the Company to allocate 10% of its net income before zakat and income tax each year to form a statutory reserve until such reserve equals 30% of the Company's share capital. The statutory reserve is not available for distribution. During the year, the Company has transferred SR 7.2 million (2019: SR 8 million).

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19. FEE INCOME AND EXPENSES

Fee income	**2020**	2019
Insurance income	**195,060**	178,193
Processing fee	**9,611**	8,615
Other operating income	**2,695**	3,330
	207,366	190,138
Fee expenses		
Insurance expenses	**(126,605)**	(131,198)
Commission	**(10,281)**	(9,080)
Registration fee	**(3,112)**	(3,031)
Verification expenses	**(2,265)**	(1,061)
	(142,263)	(144,370)

20. GENERAL AND ADMINISTRATION EXPENSES

	2020	2019
IT maintenance and network related expenses	**2,364**	2,063
Communication expenses	**802**	353
Legal and professional charges	**930**	766
General insurance expense	**257**	190
Collection expenses	**1,600**	1,800
Printing and stationery	**165**	210
Consultancy fees	**185**	318
Traveling expenses	**172**	206
Repair and maintenance	**137**	84
Board Remuneration	**280**	--
Advertising and promotion expenses	**251**	67
Penalty paid to SAMA (refer note 20.1)	**125**	100
Other expenses (refer note 20.2)	**1,038**	119
	8,306	6,276

20.1 The Company paid a penalty of SAR 100,000 to SAMA regarding the violation against the Company due to its failure to comply with the internal audit requirements and SR 25,000 penalty has been imposed due to not disclosing prices of financing products on the official website.

20.2 This includes legal provision of SR 0.61 million (2019: SR nil) in relation to the legal cases filed against the Company.

21. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All financial assets (including lease receivables) and financial liabilities are measured at amortized cost except for derivative financial instruments and equity instrument which are measured at fair value. The carrying amounts of all financial assets and financial liabilities measured at amortized cost approximate their fair values except for net investments in finance leases.

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21. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

The following table shows the carrying amount and fair values of financial assets and financial liabilities where fair value is different from carrying value or where the financial assets and liabilities are recorded at fair value, including their levels in the fair value hierarchy.

		---------------*Fair Value*---------------			
31 December 2020	***Carrying Value***	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets:					
Net investments in finance leases	**2,507,492**	**--**	**--**	**2,843,952**	**2,843,952**
Financial liabilities:					
Negative fair value of derivative	**42,347**	**--**	**42,347**	**--**	**42,347**

		---------------*Fair Value*---------------			
31 December 2019	*Carrying Value*	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets:					
Positive fair value of derivative	1,918	--	1,918	--	1,918
Net investments in finance leases	2,426,665	--	--	2,833,162	2,833,162
Financial liabilities:					
Negative fair value of derivative	21,742	--	21,742	--	21,742

The fair value of net investment in finance lease is determined using discounted cash flow technique considering the credit adjusted market rates. The rates are determined based on the risk profile of lease receivables and current commission rates.

Fair value of long-term loan is not significantly different from the carrying values included in the financial statements since the current market commission rates for similar financial instruments are not significantly different from the contracted rates.

Fair value of financial assets held at fair value through other comprehensive income – equity instruments is not significantly different from the carrying values included in the financial statements.

There had been no inter-level transfers during the year.

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22. FINANCIAL RISK MANAGEMENT

The Board of Directors are responsible for the overall risk management approach and for approving the risk management strategies and principles. The Board has nominated the risk management head, who has the responsibility to monitor the overall risk process within the Company and for the development of the risk strategy and implementing principles, frameworks, policies and limits.

The risk management head is responsible for managing risk decisions and monitoring on risk levels and reports on a quarterly basis to the Risk Management Committee.

1) Credit risk

The Company manages exposure to credit risk, which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally in lending activities that lead to investment in finance lease receivables.

The Company attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. Company's risk management policies are designed to identify, to set appropriate risk limits, and to monitor the risks and adherence to limits. Actual exposures against limits are monitored on regularly basis.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of Company's performance to developments affecting a particular industry.

The Company seeks to manage its credit risk exposure through diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or business. Further, the Company holds the title of the leased assets as a collateral against the finance leases and in case of default by the customer, the outstanding amount is recovered through the disposal of the leased assets.

The table below shows the gross maximum exposure to credit risk for the components of the statement of financial position:

	31 December 2020	31 December 2019
Cash and cash equivalent	**7,554**	19,829
Net investment in finance lease	**2,507,492**	2,426,665
Other receivables	**7,525**	6,361
	2,522,571	2,452,855

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22. FINANCIAL RISK MANAGEMENT (CONTINUED)

1) Credit risk (continued)

a) Credit quality analysis

The following table sets out information about the credit quality of investment in finance lease as at 31 December 2020. The amounts in the table represent gross carrying amounts.

		31 December 2020			
Gross investment in finance leases	**PD range**	**12 Month ECL**	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Very strong quality (A+ to B)	**0% - 0.05%**	**2,427,413**	**10,010**	**--**	**2,437,423**
Good quality (C+ to C)	**0.05% - 0.22%**	**593,142**	**52,907**	**--**	**646,049**
Satisfactory quality (C- to E +)	**0.22% - 3.62%**	**21,399**	**7,789**	**--**	**29,188**
Impaired	**100%**	**--**	**--**	**68,192**	**68,192**
Total		**3,041,954**	**70,706**	**68,192**	**3,180,852**

		31 December 2019			
Gross Investment in finance leases	PD range	12 Month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Very strong quality (A+ to B)	0% - 0.05%	2,030,242	1,357	--	2,031,599
Good quality (C+ to C)	0.05% - 0.22%	825,901	114,321	--	940,222
Satisfactory quality (C- to E +)	0.22% - 3.62%	3,870	35,211	--	39,081
Impaired	100%	--	--	171,928	171,928
Total		2,860,013	150,889	171,928	3,182,830

b) Amounts arising from ECL – Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and expert credit assessment.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the 12 month probability of default (PD) as at the reporting date; with
- the 12 month probability of default (PD) at the time of initial recognition of the exposure

i) Credit risk grades

The Company allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

22. FINANCIAL RISK MANAGEMENT (CONTINUED)

1) Credit risk (continued)

b) Amounts arising from ECL – Significant increase in credit risk (continued)

i) Credit risk grades (continued)

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring of exposures involves use of the following data.

Corporate exposures	Retail exposures	All exposures
• Information obtained during periodic review of customer files. • Data from credit reference agencies and changes in external credit ratings. • Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities	• Internally collected data and customer behavior • Affordability metrics • External data from credit reference agencies including industry-standard credit scores	• Payment record – this includes overdue status as well as a range of variables about payment ratios • Requests for and granting of forbearance • Existing and forecast changes in business, financial and economic conditions

ii) Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. Company collects performance and default information about its credit risk exposures separately for the corporate and retail portfolios.

The Company analyses the relationships between its historical default rates and macro-economic factors. For both the corporate and retail portfolios, the key macro-economic indicator is oil price. The Company has formulated a view of the future direction of relevant economic variables. Refer to note 22 (1)(b) for details.

iii) Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency is based on the Company's quantitative modeling.

Using its expert credit judgment and, where possible, relevant historical experience, the Company may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

Company monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews of the finance lease portfolio to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default; and
- the criteria do not align with the point in time when an asset becomes 30 days past due;

22. FINANCIAL RISK MANAGEMENT (CONTINUED)

1) Credit risk (continued)

b) Amounts arising from ECL – Significant increase in credit risk (continued)

iii) Determining whether credit risk has increased significantly (continued)

Consideration due to COVID-19
In response to the impacts of COVID-19, deferred payments program has been offered to the customers either voluntarily by the Company or on account of SAMA initiatives (refer note 27 for further details). The exercise of the deferment option by a customer, in its own, is not considered by the Company as triggering SICR and as a consequence, impact on ECL for those customers were determined based on their existing staging.

The Company will continue to individually assess significant exposures as more reliable data becomes available and accordingly determine if any adjustment in the ECL is required in subsequent reporting periods. As with any forecasts, the projections and likelihoods of occurrence are underpinned by significant judgement and uncertainty and therefore, the actual outcomes may be different to those projected. The impact of such uncertain economic environment is judgemental and the Company will continue to reassess its position and the related impact on a regular basis.

No change has been made in the backstop criteria for all types of exposures.

iv) Incorporation of forward looking information

The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on advice from economic experts and consideration of a variety of forecast information, the Company formulates a 'base case' view of the future direction of relevant economic variables. The base case represents a most-likely outcome and is aligned with information used by the Company for other purposes such as strategic planning and budgeting.
Consideration due to COVID-19

1. Types of forward looking

There have been no changes to the types of forward-looking variables (key economic drivers) used as model inputs in the current year. To the extent that certain effects cannot be fully incorporated into the ECL model calculations at this point in time, management continues to exercise expert credit judgement to estimate ECL by considering reasonable and supportable information not already included in the quantitative models. The Company has therefore recognised overlays of SR 4.78 million for the year ended 31 December 2020 based on performing sector and demographic based analysis of its impacted portfolio.

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22. FINANCIAL RISK MANAGEMENT (CONTINUED)

1) Credit risk (continued)

b) Amounts arising from ECL – Significant increase in credit risk (continued)

iv) Incorporation of forward looking information (continued)

2. Probability weightings

The Company considered the probability weightings to provide the best estimate of the possible loss outcomes and has analysed inter-relationships and correlations (over both the short and long term) within the Company's credit portfolios in determining them.

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past seven years. To account for the impact of COVID-19, the Company has used below base case near term forecast in its ECL model, which is based on updated information available as at the reporting date:

Economic indicators	Forecast calendar years used in 2020 ECL model			Forecast calendar years used in 2019 ECL model		
	2021	2022	2023	2021	2022	2023
GDP	3.10%	3.44%	2.55%	2.11%	2.20%	2.28%
Oil price	$57.97	$57.29	$57.41	$69.10	$69.20	$69.30

v) Definition of 'Default'

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to Company in full; or
- the borrower is past due more than 90 days on any material credit obligation to Company.

In assessing whether a borrower is in default, the Company considers indicators that are quantitative- e.g. overdue status and non-payment on another obligation of the same customer to the Company.

vi) Measurement of ECL

The key inputs into the measurement of ECL are the following risk estimates:

- probability of default ("PD");
- loss given default ("LGD"); and
- exposure at default ("EAD").

PD estimates are estimates at a certain date, which are calculated, based on statistical rating models, and assessed using rating tools tailored for company's portfolio. These rating models are based on both quantitative and qualitative factors. If a counterparty or exposure migrates between ratings classes, then this will lead to a change in the estimate of the associated PD. Further the PD term structure is estimated considering the contractual maturities of exposures.

LGD is the magnitude of the likely loss if there is a default. Company estimates LGD based on the history of recovery rates of claims against defaulted counterparties. LGD model considers the structure, any sale of collateral, and recovery costs of any collateral that is integral to the financial asset.

22. FINANCIAL RISK MANAGEMENT (CONTINUED)

1) Credit risk (continued)

b) Amounts arising from ECL – Significant increase in credit risk (continued)

vi) Measurement of ECL (continued)

EAD represents the expected exposure in the event of a default. Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Company measures ECL considering the risk of default over the maximum contractual period over which it is exposed to credit risk, even if, for risk management purposes, the Company considers a longer period.

Sensitivity of ECL allowance:
The uncertainty of the impact of COVID-19 introduces significant estimation uncertainty in relation to the measurement of the Company's allowance for expected credit losses. The changing COVID-19 circumstances and the Government stimulus packages, business and consumer responses could result in significant adjustments to the allowance in future financial years.

Given current economic uncertainties and the judgment applied to factors used in determining the expected default of borrowers in future periods, expected credit losses reported by the Company should be considered as a best estimate within a range of possible estimates.

The table below illustrates the sensitivity of ECL to the key macroeconomic factor used in determining it as at the year end:

Assumption sensitized	Impact on expected credit losses (2020)
Decrease of $10 in oil price per barrel	(4,379)
Decrease of $20 in oil price per barrel	(8,758)

vii) Modified financial assets

The contractual terms of a lease may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing lease whose terms have been modified may be derecognized and the renegotiated instrument recognized as a new instrument at fair value in accordance with the accounting policy.

When the terms of a financial asset are modified and the modification does not result in de-recognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- The risk of default at the reporting date (based on modified contractual terms) and
- The risk of default occurring at initial recognition (based on original, unmodified contractual terms).

If the modification results in derecognition, the determination of whether the asset's credit risk has increased significantly reflects a comparison of the following:

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22. FINANCIAL RISK MANAGEMENT (CONTINUED)

1) Credit risk (continued)

b) Amounts arising from ECL – Significant increase in credit risk (continued)

vii) Modified financial assets (continued)

- risk of default at the reporting date (based on modified contractual terms); and
- the risk of default based on the modified terms.

The modified terms usually include extending the maturity, changing the timing of profit payments and amending the terms of loan covenants. Both retail and corporate loans are subject to modification.

For financial assets, which are modified, the estimate of PD reflects whether the modification has improved or restored the Company ability to collect profit and principal. As part of this process, the Company evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, a customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired / default or the risk of default is considered to have decreased.

c. Loss allowance

The following table shows reconciliations from the opening to the closing balance of the carrying amount of the investment in finance lease and the related loss allowance account for the year ended 31 December 2020.

Gross investments in finance lease	12 Month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
Balance at 1 January, 2020	**2,270,238**	**124,449**	**137,014**	**2,531,701**
Transfer from 12 Month ECL	(50,896)	36,479	14,417	--
Transfer from Lifetime ECL not credit impaired	55,990	(64,297)	8,307	--
Transfer from Lifetime ECL credit – impaired	38,653	9,888	(48,541)	--
Net repayment received during the year	(862,067)	(56,373)	(46,690)	(965,130)
New finance lease receivables originated during the year	1,035,051	8,327	811	1,044,189
Write Off	--	--	(11,393)	(11,393)
Balance at 31 December 2020	**2,486,969**	**58,473**	**53,925**	**2,599,367**

Expected credit losses	12 Month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
Balance at 1 January, 2020	**19,818**	**6,014**	**79,204**	**105,036**
Transfer from 12 Month ECL	(955)	701	254	--
Transfer from Lifetime ECL not credit – Not impaired	2,966	(3,406)	440	--
Transfer from Lifetime ECL not credit – impaired	11,969	3,093	(15,062)	--
Net re-measurement of loss allowance	(8,511)	(2,194)	13,077	2,372
Financial assets that have been derecognized during the year	(4,589)	(1,510)	(14,082)	(20,181)
New finance lease receivables originated during the year	12,362	3,054	625	16,041
Write Off	--	--	(11,393)	(11,393)
Balance at 31 December 2020	**33,060**	**5,752**	**53,063**	**91,875**

22. FINANCIAL RISK MANAGEMENT (CONTINUED)

1) Credit risk (continued)

c) Loss allowance (continued)

The following table shows reconciliations from the opening to the closing balance of the carrying amount of the investment in finance lease and the related loss allowance account for the year ended 31 December 2019.

Gross investments in finance lease	12 Month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
Balance at 1 January, 2019	1,965,268	317,615	135,726	2,418,609
Transfer from 12 Month ECL	(90,254)	65,924	24,330	--
Transfer from Lifetime ECL not credit – impaired	149,457	(180,056)	30,599	--
Net repayment received during the year	(728,242)	(91,833)	(57,204)	(877,279)
New finance lease receivables originated during the year	974,009	12,799	3,563	990,371
Balance at 31 December 2019	2,270,238	124,449	137,014	2,531,701

Loss Allowance	12 Month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
Balance at 1 January, 2019	14,865	15,925	70,215	101,005
Transfer from 12 Month ECL	(836)	593	244	--
Transfer from Lifetime ECL not credit – impaired	15,307	(8,903)	(6,404)	--
Net re-measurement of loss allowance	(13,152)	(188)	24,125	10,785
Financial assets that have been derecognized during the year	(2,382)	(2,194)	(10,375)	(14,951)
New finance lease receivables originated during the year	6,016	781	1,400	8,197
Balance at 31 December 2019	19,818	6,014	79,204	105,036

2) Market rate risk

a) Special commission rate risk

Special commission rate risk is the uncertainty of future earnings resulting from fluctuations in special commission rates. The risk arises when there is a mismatch in assets and liabilities, which are subject to special commission rate adjustment within a specified period. The most important source of such rate is the Company's borrowing where fluctuations in special commission rates, if any, are reflected in the results of its operations. The sensitivity to a 50 basis points change in financial charges on long term loans, with all other variable constant on the Company's financial charges for the year are mentioned below:

	2020		2019	
	Change in basis points	**Impact on financial charges**	Change in basis points	Impact on financial charges
Saudi Riyals in '000	**+50**	**(18,164)**	+50	(10,422)
Saudi Riyals in '000	**-50**	**18,164**	-50	10.422

b) Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Company is subject to fluctuations in foreign exchange rates in the normal course of its business. The Company did not undertake significant transactions in currencies other than Saudi Riyals and US Dollars. As US Dollar is pegged with Saudi Riyal, therefore, Company does not have any currency risk in these transactions.

(SAR '000)

22. FINANCIAL RISK MANAGEMENT (CONTINUED)

3) Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately

Liquidity risk is the risk that the Company will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately.

Management monitors the maturity profile of the Company's assets and liabilities based on the remaining period at the statement of financial position date to the contractual maturity date to ensure that adequate liquidity is maintained. All liabilities other than end of service benefits and long-term loans are contractually payable on a current basis. The table below shows an analysis of financial assets and liabilities according to when they are expected to be recovered or settled.

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted repayment obligation. The contractual maturities of the liabilities have been determined based on the remaining period at the statement of financial position date to the contractual maturity date and do not take account of the effective expected maturities.

The maturity profile of the Company's financial assets, liabilities, and shareholders' equity is as follows:

31 December 2020	Within 3 months	3 to 12 months	1 to 5 years	No fixed maturity	Total
Assets					
Cash in hand and at banks	--	--	--	7,554	7,554
Net investment in finance leases	272,918	654,586	1,579,988	--	2,507,492
Investment at FVOCI	--	--	--	893	893
Other receivables	--	--	--	30,284	30,284
	272,918	654,586	1,579,988	38,731	2,546,223
Liabilities and Shareholders' equity					
Accounts payable	72,025	8,602	--	--	80,627
Accrued expenses and other liabilities	16,652	2,041	--	--	18,693
Due to related parties	30,951	--	--	--	30,951
Employees' end of service benefits	--	--	--	6,882	6,882
SAMA Deposit Net	--	5,166	4,953	--	10,119
Negative fair value of derivatives	--	--	--	42,347	42,347
Long term loan	112,621	270,791	1,145,833	--	1,529,245
Shareholders' equity	--	--	--	788,518	788,518
	232,249	286,600	1,150,786	837,747	2,507,382
Maturity gap	40,669	367,986	429,202	(799,016)	
Cumulative maturity gap	40,669	408,655	837,857	38,841	

(SAR '000)

22. FINANCIAL RISK MANAGEMENT (CONTINUED)

3) Liquidity risk (continued)

31 December 2019	Within 3 months	3 to 12 months	1 to 5 years	No fixed maturity	Total
Assets					
Cash in hand and at banks	--	--	--	19,831	19,831
Net investment in finance leases	259,101	602,999	1,564,564	--	2,426,665
Investment at FVOCI	--	--	--	893	893
Positive fair value of derivatives	--	--	--	1,918	1,918
Other receivables	--	--	--	6,361	6,361
	259,101	602,999	1,564,564	29,003	2,455,668
Liabilities and Shareholders' equity					
Accounts payable	33,805	11,827	--	--	45,632
Accrued expenses and other liabilities	9,624	2,033	--	--	11,657
Due to related parties	5,842	--	--	--	5,842
Employees' end of service benefits	--	--	--	5,619	5,619
Negative fair value of derivatives	--	--	--	21,742	21,742
Long term loan	111,462	290,625	1,225,000	--	1,627,087
Shareholders' equity	--	--	--	738,860	738,860
	160,733	304,485	1,225,000	27,361	2,456,439
Maturity gap	98,368	298,514	339,564	(737,218)	
Cumulative maturity gap	98,368	396,882	736,446	(772)	

23. GEOGRAPHICAL CONCENTRATION

The Company's operations are restricted to the Kingdom of Saudi Arabia only.

24. CAPITAL MANAGEMENT

The Company manages and controls its capital structure and liquidity needs in order to safeguard the Company's ability to meet its future obligations and growing plans and continue as a going concern. The Company monitors the adequacy of its capital using below measures:

	2020	2019
Capital ratio (%)	**19.46%**	19.85%

The capital ratio above is calculated by dividing the Company's total share capital with the weighted average total assets of the Company as at year-end. The Company has a capital of SR 500 million (50 million share).

The Company also raised Tawarruq financing to fund investments in finance lease and to help achieve the differential between cost of funds and financing income from net investment in finance lease.

25. SEGMENT REPORTING

Operating segments are identified on the basis of internal reports about components of the Company that are regularly reviewed by the Company's Board of Directors in its function as chief decision maker in order to allocate resources to the segments and to assess their performance.

A segment is a distinguishable component that is engaged in providing products or services (a business segment), which is subject to risks and rewards that are different from those of other segments.

	Amount in SAR '000		
31 December 2020	**Retail**	**Corporate**	**Total**
Total assets	**2,522,144**	**83,937**	**2,606,081**
Total liabilities	**1,813,808**	**3,755**	**1,817,563**
Allowance for expected credit losses	**88,606**	**3,269**	**91,875**
Total income	**339,566**	**3,056**	**342,622**
Total operating expenses	**232,456**	**4,618**	**237,074**
Net income for the year	**107,110**	**(1,562)**	**105,548**

	Amount in SAR '000		
31 December 2019	Retail	Corporate	Total
Total assets	2,478,475	54,468	2,532,943
Total liabilities	1,793,160	923	1,794,083
Impairment allowance for credit losses	102,944	2,092	105,036
Total income	326,505	8,700	335,205
Total operating expenses	244,428	3,547	247,975
Net income for the year	82,077	5,153	87,230

26. COMMITMENTS

The Company has finance lease contracts approved but not utilised, indicative offers issued which are under consideration of the customers as of the reporting date which have the potential to convert into financing amounting to SR 19.418 million (2019: SR 12.89 million).

As at 31 December 2020, the Company has an outstanding guarantee of SR 30 million (2019: SR 5 million) submitted in favour of Abdul Latif Jameel Retail Company Limited against purchases of vehicle for onward leasing to customers.

27. SAMA SUPPORT PROGRAMS AND INITIATIVES

In response to COVID-19, SAMA launched the Private Sector Financing Support Program ("PSFSP") in March 2020 to provide the necessary support to the Micro Small and Medium Enterprises ("MSME") as per the definition issued by SAMA via Circular No. 381000064902 dated 16 Jumada II 1438H. Whilst the PSFSP encompasses several programs, the one most pertinent to the Company as at 31 December 2020 is the deferred payments program.

As part of the deferred payments program launched by SAMA, the Company was required to defer payments for a total of nine months (original deferment for six months was followed on by a further extension of three months) on lending facilities to those companies that qualify as MSME. The payment reliefs were considered as short-term liquidity support to address the borrower's potential cash flow issues. The Company effected the payment reliefs by extending the tenure of the applicable leases granted with no additional costs to be borne by the customer of the instalments falling due within the period from 14 March 2020 to 14 September 2020 for a period of six months and then further deferring the instalments falling due within the period from 15 September 2020 to 14 December 2020 for a period of three months. The accounting impact of these changes in terms of the credit facilities has been assessed and were treated as per the requirements of IFRS 9 as modification in terms of arrangement. This resulted in modification losses amounting to SR 4.1 million which have been presented as part of net lease finance income.

27. SAMA SUPPORT PROGRAMS AND INITIATIVES (CONTINUED)

Further to the above, SAMA on 14 December 2020 extended the deferred payment program until 31 March 2021. The Company has effected the payment reliefs by extending the tenure of the applicable leases granted with no additional costs to be borne by the customer. The accounting impact of these changes in terms of the credit facilities has been assessed and are treated as per the requirements of IFRS 9 as modification in terms of the arrangement. This resulted in the Company recognizing an additional modification loss of SR 1.5 million.

As a result of the above program and related extensions, the Company has deferred the payments amounting to SR 31.96 million on the MSME portfolio and accordingly, has recognised total modification losses of SAR 5.58 million during the year. The total exposures against these customers amounted to SR 58.714 million as at the year end.

The Company generally considered the deferral of payments in hardship arrangements as an indication of a SICR but the deferral of payments under the current COVID-19 support packages have not, in isolation, been treated as an indication of SICR.

In order to compensate the related cost that the Company is expected to incur under the SAMA and other public authorities program, the Company has received in aggregate SR 10.12 million of profit free deposit in one tranche from SAMA during the year ended 31 December 2020, with 21 month maturity. Management had determined based on the communication from SAMA, that the profit free deposits primarily relates to compensation for the modification loss incurred on the deferral of payments. The benefit of the subsidised funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. This resulted in a total income of SR 0.213 million which has been recognised in the statement of income. The management has exercised certain judgements in the recognition and measurement of this grant income.

Health care sector support

In recognition of the significant efforts that our healthcare workers are putting in to safeguard the health of our citizens and residents in response to the COVID-19 outbreak, the Company decided to voluntarily postpone payments for all public and private health care workers who have lease contracts with the Company for three months. This resulted in the Company recognising a day 1 modification loss of SR 2.4 million during the year ended 31 December 2020, which was presented as part of lease finance income. During the year ended 31 December 2020, SR 0.707 million has been charged to the statement of income relating to unwinding of the day 1 modification loss. The impact of these modification losses was presented as part of net lease finance income.

27. SAMA SUPPORT PROGRAMS AND INITIATIVES (CONTINUED)

SAMA program - customer support on deferral of financing

In April 2020, SAMA issued further guidance to financing companies around providing the necessary support for individual customers that lost their jobs in the private sector due to COVID-19, whether directly or indirectly. Accordingly, the Company has received applications from various customers to avail this SAMA program and has effected the payment reliefs by extending the tenure of the applicable investments in finance lease for three months with no additional costs to be borne by the customer. The accounting impact of these changes in terms of the investments in finance lease has been assessed and are treated as per the requirements of IFRS 9 as modification in terms of arrangement. The impact of these modification losses was not material to the financial statements.

28. SUBSEQUENT EVENTS

There were no subsequent events after the statement of financial position date which require adjustments to / or disclosure in the financial statements.

29. BOARD OF DIRECTORS' APPROVAL

The financial statements have been approved by the Board of Directors on 19 Rajab 1442H (corresponding to 3 March 2021).